8.1

COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: October 8, 2013

CATEGORY: New Business

DEPT.: City Manager's Office

TITLE: **Proposed Migration to CalPERS Health Program for Sworn Employees**

RECOMMENDATION

Accept report on proposed migration to the California Public Employees Retirement System (CalPERS) Health Program for sworn employees and retirees of the City of Mountain View (City) and direct staff to execute side letter and prepare enabling resolutions for Council consideration.

BACKGROUND

The City of Mountain View currently contracts for health insurance benefits for active and retired employees. Benefit levels and cost sharing are generally negotiated between the City and employee bargaining units, and have changed over time as health-care costs have increased significantly. Eligible employees have access to health benefits in retirement through the City's Retirees' Health Program.

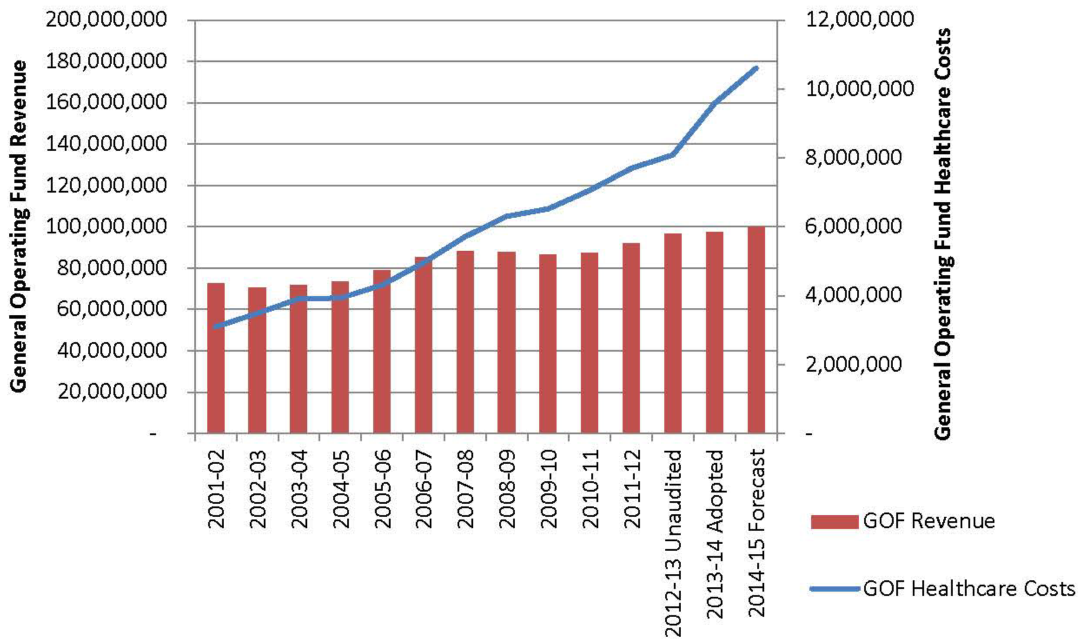
In negotiating new labor contracts in 2012, the City agreed to study changes to health benefits for sworn Fire and Police employees with the intent of allowing these employees to join the CalPERS health benefit program administered under the Public Employees Medical Hospital Care Act (PEMHCA) if the study determined the transition to be cost-effective based on an analysis of short-term and long-term City costs. The study was conducted jointly between the Mountain View Professional Firefighters Local 1965 (MVFF) and the City of Mountain View by a labor management committee (Committee) which hired an actuarial consultant, Bickmore, to advise the Committee.

The Committee has completed a comprehensive study and believes that it is financially feasible for sworn Fire employees, or sworn Police and Fire employees, to move to PEMHCA under specific circumstances described further in this report. A notable aspect of the proposed migration is that employees would continue to pay 1.2 percent of their salary toward the City's Retirees' Health Trust to help offset costs for retiree health benefits. This approach was suggested by MVFF and is analogous to employees' contributions toward pension benefits.

The City previously studied a migration to PEMHCA in 2009. Two key assumptions used in that study varied from the current study. In particular, the 2009 study assumed all employees—not solely sworn employees—would migrate to CalPERS, and did not include an employee contribution toward the retirees' health benefit. Both of these factors are important components of the assessment of the financial impact of migration to the CalPERS health benefit program.

First, the City would have incurred greater retirees' health obligations if all employees had migrated to PEMHCA. This is because CalPERS has a shorter vesting period for receiving retirees' health benefits and, while sworn employees often stay with one public agency for much of their career, this is less common for nonsafety employees. As a result, the City would have had to extend retirees' health benefits to far more individuals who did not meet the City's retirees' health benefit requirements but would be eligible for benefits under CalPERS law. A second financial impact associated with the migration is that sworn Police and Fire employees in PEMHCA can participate in a health plan offered through the Peace Officers Research Association of California (PORAC), which has lower premiums for active employees than the plans available to nonsworn active employees. Since this plan is not available to nonsworn employees, the costs associated with premiums are higher for nonsworn employees. Finally, the employee contribution of 1.2 percent of salary toward the City's retirees' health cost is an essential offset to increased City costs. No employee contribution was contemplated in 2009.

Health insurance benefits are an important part of a competitive compensation package for City employees, and also are increasingly expensive. Over the last 12 years, direct City costs for health benefits have increased approximately 220 percent, from $3 million in Fiscal Year 2001-02 to an expected $9.6 million for Fiscal Year 2013-14. As noted in the graph below, City revenue growth has not matched that pace.



For several years, the City and employee organizations have worked to address these cost increases by modifying benefit levels for active employees and for retirees, and by offering new benefit options, such as a portable defined contribution retirees' health program for nonsworn employees, and a high-deductible health plan. Containing health benefit costs is likely to remain an important objective for the City for the foreseeable future.

ANALYSIS

Key Elements of CalPERS and City of Mountain View Health Benefits Programs

CalPERS is the third largest purchaser of health care in the nation, providing benefits to more than 1.3 million public employees, retirees, and their families. The program covers State employees by law and local public agencies and school employers can contract to have CalPERS provide these benefits to their employees. With the exception of the City of San Jose, which is not affiliated with CalPERS, all other cities in Santa Clara County, except for Mountain View, contract with CalPERS for health benefits. Health plans offered, covered benefits, monthly rates, and copayments are determined by the CalPERS Board, which reviews health plan contracts annually. Plans offered and monthly premiums vary across the State. Currently, CalPERS offers 10 plans in the Bay Area region: six are Health Maintenance Organization (HMO) plans and four are Preferred Provider Organization (PPO) plans.

The City offers four health plans to employees: two HMO plans through Kaiser and Health Net, a PPO plan through Health Net, and a Point of Service plan through Health Net which is now closed to new enrollees. There are differences in the designs offered by the City and by CalPERS, and also differences in the monthly premium costs. CalPERS has many plans with lower insurance premiums than the City plans. Additionally, there are differences between retirees' health benefits provided by the City and by CalPERS. Most notably, CalPERS has a shorter vesting period for retirees' health benefits, and, as analyzed in this study, employees would receive an employer contribution toward benefits for qualified retirees' dependents.

MVFF broached the prospect of moving sworn employees to the CalPERS system (commonly referred to as PEMHCA, referring to the legislation establishing the system) believing that CalPERS' lower premium costs, combined with the 1.2 percent salary contribution by active employees, could provide enough savings to enable an employer contribution to dependent coverage in retirement and cover the cost of retirees who were not eligible for the City retirees' health program but would be eligible for CalPERS health in retirement.

Affected Individuals

A migration to PEMHCA would impact individuals beyond the MVFF and Police Officers Association (POA) membership. Under CalPERS requirements, migration by MVFF employees would mean that unrepresented sworn Fire professionals and managers and retirees would also be required to migrate to PEMHCA. Similarly, migration by POA employees would mean that unrepresented sworn Police professionals and managers and retirees would also be required to migrate to PEMHCA. Sworn employees are defined under State law and serve in the following City of Mountain View job classifications:

Firefighter
Firefighter/Paramedic
Firefighter—Hazardous Materials
Fire Engineer
Firefighter/Paramedic—Hazardous Materials
Fire Engineer/Paramedic
Fire Engineer—Hazardous Materials
Fire Captain
Fire Captain—Hazardous Materials
Deputy Fire Marshal (sworn)
Hazardous Materials Specialist—Safety
Battalion Chief

Deputy Fire Chief
Fire Chief
Police Officer
Police Sergeant
Police Lieutenant
Police Captain
Assistant City Manager for Public Safety/Police Chief

The MVFF and POA membership will decide independently on whether to migrate to PEMHCA, although, as discussed below, as modeled in the study it is financially feasible only for both sworn Fire and Police employees and retirees to move to CalPERS health program, or for sworn Fire employees and retirees only to move to CalPERS health program. It is not financially feasible for only sworn Police employees and retirees to move to PEMHCA. The number of active and retired individuals who would be affected by this change are noted below.

Group	**Fire**	**Police**	**Total**
Active Employees	73	95	168
Sworn Retirees Participating in the City Retiree Health Program	57	62	119
Retirees Ineligible for City Health Benefits but Eligible for CalPERS Health Benefits	13	16	29
TOTAL	**143**	**173**	**316**

Under State law, should the migration to CalPERS be approved by MVFF or MVFF and POA, represented and unrepresented sworn employees and retirees would not have the option to continue on the City's health plans but would be offered the ability to join CalPERS plans.

Process for Joining PEMHCA and Employer Contribution to Benefits

For sworn Fire, or sworn Police and Fire employees to migrate to PEMHCA, the City Council would approve a resolution to enter into a contract with CalPERS. The contract would set the terms of employer contributions to health premiums for active employees and retirees. These terms would also be set in the Memorandum of Understanding (MOU) or resolution for affected employees. As modeled in the study and developed in the proposed side letter with MVFF, the City would provide an equal employer contribution for active employees and retirees and would provide contributions to premiums that are similar to contribution levels currently provided. The employer contribution could be changed in the future but would be subject to negotiation with the affected bargaining group. CalPERS would administer the benefits program to employees and retirees.

Response from Employees

Extensive outreach regarding the potential migration to CalPERS health program has been conducted with MVFF leadership and with affected sworn Fire employees and retirees. The City has provided the study results, summary and detailed health plan information, analysis of employee premium contributions under the City health plans and CalPERS health plans, and the terms of the proposed migration in packets mailed to employees, in a webcast, on the City Intranet, and in meetings. On September 21, 2013, the MVFF membership endorsed the proposed migration to PEMHCA as developed in the study and described here and in a draft side letter to the Memorandum of Understanding with MVFF.

The City is also engaging with POA leadership, with formal meetings to commence October 10, 2013. POA leadership and sworn managers have been provided the same background information provided to sworn Fire employees, but POA leadership have not been involved in the study process and so are considering the potential migration on a different time line. A vote by POA membership may follow discussions with POA leadership, but a date has not yet been set.

Key Terms for Side Letter

A draft side letter with MVFF governing health benefits has been discussed with MVFF and can be found in Attachment 1. These terms establish an ongoing contribution by employees of 1.2 percent of their salary towards the City's Retirees' Health Trust, the level of employer contributions to health benefit premiums, and provide for a study in 2015 to assess the financial impact of the migration. The study in 2015 is intended to test the accuracy of the many assumptions made in the current study, and determine whether the City experienced additional costs associated solely with migration to PEMHCA instead of the savings projected. Should the City experience costs in Fiscal Year 2013-14 and/or Fiscal Year 2014-2015 related solely to the migration to PEMHCA, MVFF has agreed that employees would repay increased costs experienced. It is important to note that health costs could increase for other reasons, such as regional price increases. Such increases would not trigger repayment by employees. It will be increasingly difficult over time to sort out whether future health benefit cost increases are related solely to PEMHCA migration, but should future costs escalate at an unsustainable level, the City retains the ability to negotiate certain changes, as is the case with the City's current health benefits program.

FISCAL IMPACT

To assess the financial impact of the potential migration to PEMHCA, the study analyzed the future cost of benefits to be provided to active employees and retirees, and then assessed the annual contribution toward that obligation in light of other components of annual health benefit expenses. Described in detail below, the fundamental assessment of the net impact of the potential migration to PEMHCA is as follows:

\+ Higher Long-Term Retiree Health Costs

\+ Higher Premiums for City Plans

\- Lower City Costs for PEMHCA Premiums

\- Employee Contribution Toward Retirees' Health Trust

= **Net City savings**

Higher Long-Term Retiree Health Costs

The first step in the study was to assess the current value of benefits provided to active employees, current retirees, and future retirees. The Committee jointly hired an actuarial firm, Bickmore, to conduct this study, which can be found in Attachment 2. The actuarial analysis made many economic and demographic assumptions such as expected health-care cost increases over time; the discount rate used to calculate the present value of future benefits; the likelihood that employees and retirees would choose certain health plans, which in turn affected City costs; the level of dependent coverage; employees' age at retirement; and rates of mortality. All of the assumptions are described in detail in the Bickmore report, which projects costs over a 20-year time frame. This analysis determined that moving to the CalPERS health plan would increase the present value of future benefits, as illustrated in the table below.

Many of the assumptions used in the study are recommended by CalPERS based on State-wide data. In the case of annual increases in health-care premiums, however, CalPERS establishes a range within which increases may be projected. The study included two sets of assumptions regarding health premium cost increases over time, which are denoted by the columns labeled "Bickmore" and "Nicolay." The column names refer to the actuarial firms conducting the studies: Bickmore was hired by the Committee studying the possible migration to PEMHCA, and Nicolay is the firm employed by the City in recent years to conduct biennial valuations of the City's retirees' health program.

The column labeled Bickmore assumes a higher initial rate—but lower ultimate rate—of annual premium increases under PEMHCA, and is based on the premise that a large plan such as PEMHCA is likely to have more success, over the long term, with moderating cost increases than a small plan such as that administered by the City. The column labeled Nicolay uses the same health trend as is being used for the current City Retirees' Health Plan, and has a lower initial rate, and higher final rate, of annual increases.

Because the actual rate of health premium increases can make a substantial difference in the ultimate financial feasibility of the migration to PEMHCA, the Committee decided to include both trend assumptions in the financial analysis to illustrate a range of possible outcomes.

	City of Mountain View Current Retiree Health Plan	**PEMHCA Health Cost Bickmore**	**PEMHCA Health Cost Nicolay**
MVFF and Sworn Fire Managers	$15,962,506	$16,719,579	$17,012,817
POA and Sworn Police Managers	$18,945,067	$22,715,434	$23,283,487
Total, all Sworn Employees	$34,907,573	$39,435,013	$40,296,304
Difference		**$ 4,527,440**	**$ 5,388,731**
Source: Appendix 2 Bickmore Report			

The value of future benefits determines an annual contribution required to fund future benefits, the Annual Required Contribution (ARC). The ARC under PEMHCA would be higher than the ARC under the City's Retirees' Health Plan because of greater benefit levels (namely dependent coverage) in retirement and because additional retirees would become eligible for benefits under CalPERS who were not eligible for benefits under the City's retirees' health program.

Higher Premiums for City Plans

A second component of the financial analysis is the City's costs for premiums under the City's health program for other employees. Based on feedback from the City's current health plans, the City could experience higher premiums because fewer individuals would be insured through the City's plans, increasing the risk to the insurers. Kaiser estimated that this could increase premium costs by 6.5 percent if MVFF alone were to migrate to PEMHCA, and by 7 percent to 12 percent if both POA and MVFF migrate to PEMHCA. Health Net estimated that premiums could decrease by 0.11 percent if MVFF alone were to migrate to PEMHCA, and would increase by 1.24 percent if both POA and MVFF migrate to PEMHCA.

Additionally, the City would have a relatively small new cost to provide vision coverage for active sworn employees who currently receive vision benefits through Kaiser, as the City's Kaiser plan currently provides vision coverage but CalPERS plans do not provide vision coverage. City employees enrolled in Health Net plans already participate in a separate vision plan, and so the net impact is only for employees currently in Kaiser.

Lower City Costs for PEMHCA Premiums

The third component of the financial analysis is the City's costs for premiums under PEMHCA. Because CalPERS offers many plans with a lower monthly premium than City health plans, and because the City pays the majority of premium costs, the analysis anticipates significantly lower City costs for those migrating to PEMHCA.

Employee Contribution Toward Retirees' Health Trust

The final component of the financial analysis is the value of ongoing contributions by employees of 1.2 percent of their salary toward the City's Retirees' Health Trust. As contemplated in the original MVFF proposal, included in this study and provided for in the draft side letter with MVFF, this would be an ongoing contribution by employees which would not sunset.

Bringing all of these components together, as illustrated in the table below, the net annual financial impact of all sworn employees migrating to PEMHCA is estimated to save the City $225,000 to $457,000.

Net Annual Financial Impact of All Sworn Employees Migrating to PEMHCA

		PEMHCA Health Cost Bickmore	**PEMHCA Health Cost Nicolay**
Increase in Annual Required Contribution		$394,304	$ 466,154
Savings in City-Paid Health Premiums Active Sworn Employees (Budgeted for FY 2012-13)		$(852,899)	$(852,899)
Estimated Increase in City Premiums Associated with Smaller Group Insured	Low 7%	$269,665	$ 69,665
	High 12%	$429,777	$ 429,777
1.2% OPEB Contribution *(Note: amount listed is based on FY 2012-13 salaries and illustrates both Police and Fire contribution; Police contribution began FY 2013-14)*		$(267,929)	$(267,929)
Total Annual City Cost (Savings) for Employees and Retirees Health Insurance	Low	$(456,859)	$(385,009)
	High	$(296,747)	$(224,897)

Because MVFF and POA are deciding independently whether to go to PEMHCA, the study also modeled the financial impact on the City if only MVFF or only the POA migrated to PEMHCA. The calculations are provided in Attachment 3. The analysis concluded that if only MVFF migrates, the annual savings would be $177,000 to $202,000. If only POA migrates, the City would incur a net cost increase of $23,000 to $70,000 annually. The primary reason is because, on a State-wide basis, sworn Police are more likely to retire at age 50 than sworn Fire employees and, therefore, retiree benefits continue for a longer period of time and are more costly.

It is important to understand that the study was conducted by a professional actuarial firm and is based on reasonable and carefully considered assumptions, but should be seen as a best estimate based on today's knowledge. The study projects decisions employees and retirees will make in selecting health plans and covering dependents. Additionally, actuarial assumptions can and do change: for example, CalPERS has recently offered three different asset allocation strategies with three different investment returns for agencies participating in the CalPERS-administered Retirees' Health Trust, as Mountain View does. Using a lower investment return assumption will increase the cost of benefits. Similarly, longer life expectancies have changed mortality assumptions over time. The agreement with MVFF to study in 2015 whether the savings projected in the study actually materialize, and for employees to repay any cost associated with migration, is an important protection for the City. At the same time, increased costs unrelated to migration to PEMHCA (such as a change in asset allocation strategies) would not be an automatic obligation of employees and would have to be negotiated, as is the case now.

Cost of Future Employees

The comprehensive actuarial study focused on current employees and retirees. The consultant calculated net costs associated with employees hired in the future. While the net impact will vary by the age of the employee at the time of hire and the plan they select, for an employee hired at age 30 (the average age at hire for sworn employees over the past 10 years), as shown in Table 6 of the Bickmore report, the City's premium savings are projected to more than offset the increased retiree health cost for future employees.

CONCLUSION

As provided in current labor agreements with MVFF and POA, the City and MVFF have jointly studied the potential migration of sworn Fire and Police employees to the CalPERS health benefit program. The study has determined that the transition would be financially feasible for sworn Fire employees, or sworn Police and Fire employees, to move to PEMHCA under the assumptions included in the study and the terms established in the draft side letter to the MVFF MOU. These terms establish an ongoing contribution by employees of 1.2 percent of their salary towards the Retirees' Health Trust, the level of employer contributions to health benefit premiums, provide for a study in 2015 to assess the financial impact of the migration, and obligate employees to repay costs incurred solely as a result of migration.

Based on the study results, under the terms of the contracts with MVFF and POA, both POA and MVFF may elect to move to PEMHCA together, or MVFF alone may migrate to PEMHCA. MVFF has elected to migrate to PEMHCA effective March 1, 2014. Upon execution of the side letter governing health benefits, staff will return with resolutions enabling sworn Fire employees and retirees to join PEMHCA. The expected effective date is March 1, 2014, following a transition period between the City and CalPERS and open enrollment period for affected individuals.

Staff is discussing the proposed migration with the POA as well. If the POA decides by November 15, 2013 to move to PEMHCA, sworn Police employees and retirees could migrate at the same time as MVFF (March 1, 2014). If they decide by December 20, 2013, sworn Police employees and retirees could migrate to PEMHCA effective January 2015. In either of these situations, staff will return to the City Council to approve enabling resolutions. A final alternative is for the POA to decline to join PEMHCA.

ALTERNATIVES—Direct staff to provide additional information.

PUBLIC NOTICING—Agenda posting.

Prepared by:	Approved by:
Melissa Stevenson Dile Assistant City Manager	Daniel H. Rich City Manager
Patty J. Kong Finance and Administrative Services Director	

MSD-PJK/7/CAM
602-10-08-13CR-E

Attachments:
1. Draft Side Letter with MVFF Local 1965 Regarding Health Benefits
2. August 26, 2013 Bickmore Report: Proposal to Join the CalPERS Medical Program Analysis of the Retiree Medical Cost for Sworn Safety Employees
3. Financial Impact for Sworn Fire and Sworn Police Migration to CalPERS Health

Attachment 1

***Draft* MVFF Side Letter Regarding Migration to CalPERS Health Program (PEMHCA)**
October 2, 2013

<u>Note</u>: The following language replaces Section 6.00 of the Fiscal Year 2012-15 MVFF MOU, which addresses insurance benefits.

6.00 **INSURANCE**

6.01 Medical

6.01.1 Transition to PEMHCA

Following a study jointly conducted by the MVFF and City of Mountain View (City), the parties have agreed that all represented sworn members will migrate to the CalPERS health system provided under the Public Employees Medical and Hospital Care Act ("PEMHCA") (Government Code Section 22750, *et seq.*). This migration will apply to unrepresented sworn Fire employees and retired sworn Fire employees as well. The anticipated migration date is March 2014.

All represented sworn members will be covered by an equal contribution resolution which will apply to current and future represented sworn members, unrepresented sworn Fire personnel, and retired sworn Fire personnel.

6.01.2 Cost Sharing

The migration to PEMHCA is the result of an extensive study jointly conducted by MVFF and the City between July 2012 and September 2013. The study made numerous assumptions, as identified in the August 26, 2013 final Bickmore report and the Assessment of Total Financial Impact of Migrating Active and Retired Sworn Employees to PEMHCA, dated September 6, 2013. Based on these assumptions and the ongoing contribution of 1.2 percent of salary toward the Retirees' Health Trust (see Section 6.03 below), MVFF and the City expect that the migration to PEMHCA alone will not increase overall costs to the City in the short or long term, compared to continuation of medical benefits through City-contracted insurance, and may provide net savings to the City. The net impact to the City was calculated in the study by considering the Annual Required Contribution (ARC) for retirees' health benefits for sworn employees; City costs for health premiums for active sworn employees; estimated new City costs for health premiums related solely to having a smaller group of insured individuals; City costs for vision for active sworn employees in Kaiser; and the value of sworn employee contributions toward the Retirees' Health Trust. These same factors will be used to determine the net impact of migration to PEMHCA as further discussed in Section 6.01.3.

6.01.3 Reconciliation of Anticipated Savings to Actual Experience Following Migration

In Fiscal Year 2015-16, the City will evaluate whether the net savings anticipated in the Fiscal Year 2012-13 study have been realized. This study will use the same financial factors as identified in Section 6.01.2. If a net savings was not realized and instead net costs increased, this study will isolate the source of the increased costs to determine whether the migration to PEMHCA was a factor. In order to maintain consistency between the 2013 and 2015 studies, the City and MVFF agree it would be ideal for the 2015 study to be conducted by Bickmore, the firm which provided actuarial and consulting services for the 2013 study. The City will attempt to engage Bickmore for the 2015 study. Should Bickmore no longer be in business or unable to conduct the study, the City retains the right to choose the actuarial firm to conduct the 2015 study and, in that situation, would direct the firm to use the actuarial assumptions used in the 2013 study and further described below.

Based on the City's experience at the time of the study and advice of the consultant jointly hired by the City and MVFF, the Fiscal Year 2012-13 study made numerous assumptions in three main areas; key examples are provided here for illustration with the comprehensive list of assumptions provided in the study documents:

- The initial migration to PEMHCA (such as the health plans selected by employees and retirees, the level of dependent coverage, and enrollment by retirees eligible for health coverage under PEMHCA but not eligible for the City Retiree Health Program);

- The impact to City health plan premiums associated with having a smaller number of insured individuals, City costs for vision for active sworn employees in Kaiser, and the value of sworn employee contributions toward the Retirees' Health Trust; and

- Actuarial assumptions to project events and costs over time, as reflected in the ARC (Discount Rate, Mortality Rates, Termination Rates, Service Retirement Rates, Disability Retirement Rates, Medicare Eligibility, Healthcare Trend, Participation Rates, Spouse Coverage, Dependent Coverage).

For the purpose of determining whether the City incurred net increased costs as a result of the migration to PEMHCA rather than obtaining net savings, the Fiscal Year 2015-16 study will compare the actual experience in migrating to PEMHCA to the assumptions made in the Fiscal Year 2012-13 study as follows:

- It will determine whether the initial migration to PEMHCA occurred as expected, specifically the health plans selected by employees and retirees, the level of dependent coverage, and enrollment by retirees eligible for health coverage under PEMHCA but not eligible for the City Retiree Health Program);

- It will clearly demonstrate the extent to which City health plan premiums changed solely as a result of having a smaller number of insured individuals, actual City costs for vision for active sworn employees in Kaiser, and the value of sworn employee contributions toward the Retirees' Health Trust; and

- It will determine whether the ARC changed as expected in the Fiscal Year 2012-13 study, by conducting a retiree health valuation as of July 1, 2015. It is understood that retiree health valuations conducted by the City in the future may use different actuarial assumptions than used in the Fiscal Year 2012-13 study based on the City's actual experience following migration, but for the purposes of the Fiscal Year 2015-16 study to assess the impact of migrating to PEMHCA, the same numerical actuarial assumptions related to Discount Rate, Mortality Rates, Termination Rates, Service Retirement Rates, Disability Retirement Rates, Medicare Eligibility, Healthcare Trend, Participation Rates, Spouse Coverage, and Dependent Coverage will be used as were used in the Fiscal Year 2012-13 study. The Fiscal Year 2015-16 study will also exclude the implicit subsidy liability, as was the case in the Fiscal Year 2012-13 study.

If both sworn Police and Fire employees migrate to PEMHCA, the study will identify the results for the two employee groups separately; if only sworn Fire employees migrate to PEMHCA, the study will only assess results for sworn Fire employees. Any costs associated with this evaluation will be borne solely by the City.

MVFF and the City further agree that if the Fiscal Year 2015-16 study illustrates that the migration to PEMHCA resulted in higher net costs to the City in calendar years 2014 and/or 2015, rather than net savings, the parties will meet and confer over ways to pay for the higher costs. MVFF and the City agree to meet as quickly as possible to resolve this issue. If, within 60 days of the Fiscal Year 2015-16 study results being provided to MVFF, the parties are not able to agree on a method to pay for the increased costs in calendar years 2014 and/or 2015, the represented sworn members' 1.2 percent salary contribution toward the Retirees' Health Trust will increase up to a maximum of 2 percent in order to pay the cost over a five-year period, an approach to cost repayment which may be subsequently modified by mutual agreement between MVFF and the City. Unrepresented sworn managers would have the same obligation to repay costs experienced by the City in calendar years 2014 and/or 2015.

6.01.4 City Contributions Towards Medical Premiums

Following migration to PEMHCA, initial City contributions for medical insurance premiums are established as follows:

- *For single-level coverage*: The City will pay the full premium for single coverage for full-time regular employees and eligible retirees for any plan, up to, but not exceeding, the single-coverage premium for the "Maximum" plan. The employee or retiree will pay the additional cost of any plan which has a higher monthly cost than the Maximum plan.

- *Dependent-level coverage:* The City will pay 92 percent of the total premium for the employee and his or her dependents, up to, but not exceeding, 92 percent of the two-party or family premium for the Maximum plan, respectively. The employee or retiree will pay the remaining premium, which will be at least 8 percent of the two-party or family premium; more if the plan selected has a higher premium than the Maximum plan.

- The "Maximum plan" for active employees and pre-Medicare retirees will be the plan with the third–highest Bay Area Region Basic plan rates (Kaiser in 2014). For Medicare-eligible retirees, the "Maximum plan" will be the average of all Bay Area Region "Supplement to Medicare" or "Combination" rates, depending on the plan selected by the retiree.

Active employees, active employees and their dependents, and retirees not eligible for Medicare participate in PEMHCA "Basic" Plans:

Party Rate	Enrollment	Employer Contribution
Basic Party Rate 1—Single	Active or Retiree in Basic	Up to 100% of Third-Highest Bay Area Region Basic Premium
Basic Party Rate 2—Two-Party	Active or Retiree in Basic, 1 Dependent	Up to 92% of Third-Highest Bay Area Region Two-Party Basic Premium
Basic Party Rate 3—Family	Active or Retiree in Basic, 1+ Dependents	Up to 92% of Third-Highest Bay Area Region Family Basic Premium

Retirees who are Medicare eligible and their dependents who are Medicare eligible participate in PEMHCA "Supplement to Medicare" (SM) Plans:

Party Rate	**Enrollment**	**Employer Contribution**
Supplemental Party Rate 4	Retiree in SM	Up to 100% of the Average of All Bay Area Region Supplement to Medicare Premiums
Supplemental Party Rate 5	Retiree in SM, and 1 Dependent in SM	Up to 92% of the Average of All Bay Area Region Supplement to Medicare Premiums
Supplemental Party Rate 6	Retiree in SM, and 1+ Dependent in SM	Up to 92% of the Average of All Bay Area Region Supplement to Medicare Premiums

Retirees who are Medicare eligible and who have Dependents who are in Basic plans participate in the following PEMHCA "Combination" Plans:

Party Rate	**Enrollment**	**Employer Contribution**
Combination Rate 7	Retiree in SM, and 1 Dependent in Basic	Up to 92% of the Average of All Bay Area Region Combination Rate 7 Premiums
Combination Rate 8	Retiree in SM, and 2+ Dependent in Basic	Up to 92% of the Average of All Bay Area Region Combination Rate 8 Premiums
Combination Rate 9	Retiree in SM, 1 Dependent in SM, and 1+ Dependent in Basic	Up to 92% of the Average of All Bay Area Region Combination Rate 9 Premiums

Retirees who are in Basic plans and who have Dependents who are in SM plans participate in the following PEMHCA "Combination" Plans:

Party Rate	**Enrollment**	**Employer Contribution**
Combination Rate 10	Retiree in Basic, and 1 Dep in SM	Up to 92% of the Average of All Bay Area Region Combination Rate 10 Premiums
Combination Rate 11	Retiree in Basic, and 2+ Dep in SM	Up to 92% of the Average of All Bay Area Region Combination Rate 11 Premiums
Combination Rate 12	Retiree in Basic, 1 Dep in Basic, and 1+ Dep in SM	Up to 92% of the Average of All Bay Area Region Combination Rate 12 Premiums

6.01.5 PORAC Membership Fee

The parties agree that represented sworn members who choose health insurance plans offered by PORAC through CalPERS will pay the membership fee associated with PORAC plans, and that the City will not pay PORAC membership fees.

6.02 Dental

Effective the first pay period ending July 2007, employees will contribute 12 percent of the portion of premium for dental benefits attributable to dependent coverage. The City will pay 100 percent of the employee-only premium.

Contact the Human Resources Division for current dental premium rates.

6.03 Retirees' Medical

With the migration to PEMHCA, all represented sworn members, unrepresented sworn Fire personnel, and sworn Fire retirees who meet the requirements established by PEMHCA will be eligible to receive retirees' health benefits provided under PEMHCA and will no longer be eligible to receive retirees' health benefits under the City's Retirees' Health Insurance Program. Any represented sworn members, unrepresented sworn Fire personnel, and sworn Fire retirees who do not meet the requirements established by PEMHCA will not be eligible to receive benefits under the City's Retirees' Health Insurance Program.

Members will have the option of participating in the Retirement Health Savings Account without any employer contributions subject to subsequent requirements and restrictions in IRS rulings, regulations, and opinions.

In consideration for allowing represented sworn members to migrate to PEMHCA, beginning with the first pay period in Fiscal Year 2012-13, all represented and unrepresented sworn members shall contribute 1.2 percent of salary toward the retiree health cost share. Should sworn POA members and sworn Police employees also migrate to PEMHCA, they too shall contribute 1.2 percent of salary toward the City's Retirees' Health Trust. If the migration to PEMHCA is successful, and for as long as all sworn members remain with PEMHCA, all members shall continue contributing 1.2 percent of salary, on an ongoing basis, toward the City's Retirees' Health Trust to pay for or smooth future cost increases related to retirees' health. The Retirees' Health Trust will be administered by CalPERS. This contribution will be accomplished through a salary deduction and the City will make the deduction on a pretax basis to the extent permitted under State and Federal law. The City makes no representation as to the taxable nature of this deduction. The City and each employee shall retain liability for their respective tax obligations. The 1.2 percent retiree health contribution is in addition to the CalPERS pension cost share addressed in Section 7.01. The 1.2 percent retiree health contribution is an ongoing contribution separate from any increased contribution which may occur as a result of the provisions set forth in Section 6.01.3.

6.04 Disability Insurance (LTD)

Effective the first pay period ending July 2007, the City shall contribute to the Union $35 per month per represented employee. The Union shall place the $35 per month per employee into a separate account.

6.05 Vision Care

The City will provide full coverage for covered services and/or materials when members go to participating ophthalmologist, optometrist, or optician of Medical Eye Services of California or other negotiated plan. Benefits are limited if members go to a nonparticipating care provider. See brochure provided by the City for details.

The vision plan shall provide for a comprehensive examination and one (1) pair of lenses and a standard frame (or contact lenses in lieu of lenses and frames) in any consecutive 12 months. Allowances for services under this plan are outlined in the plan brochure or by contacting the Human Resources Division.

6.06 Life and Accidental Death and Dismemberment Insurance

Effective November 1, 1998, the City shall pay the premium for all permanent employees for life insurance coverage equal to $50,000 or five times the employee's annual salary to a maximum of Six Hundred Thousand Dollars ($600,000), at the employee's option. Included in this insurance is Accidental Death and Dismemberment (AD&D) coverage. See Group Insurance Summary Plan for information regarding dismemberment benefits. This benefit may be continued at the employee's cost after separation.

6.07 Job-Related Physician Visits

The City has prearranged qualified medical facilities to provide quality and prompt medical care to injured employees. If, after 30 days of care by an employer-directed physician, a member is for any reason dissatisfied, s/he may select your own doctor. Members may request this change by contacting Risk Management or the City's claims administrator.

In lieu of an employer-directed physician, State law allows members the right to see their personal physician immediately following an accident. Members are required to make this request in writing and have it on file with the Risk Manager before the date of the injury. For this purpose, "personal physician" is defined as a doctor or chiropractor (not both) who, before the injury, directed the medical treatment of the employee and maintains the employee's medical records. The member's personal physician must be within a reasonable geographical area and must be willing to abide by the specific requirements set forth by State law for health-care providers who wish to care for individuals injured on the job.

If the member's personal physician is not immediately available, the member should not wait until his/her physician is available but go immediately for treatment at a designated facility.

6.08 Employee Assistance Program

The City will provide an assistance program to employees and their immediate families. This licensed counseling service provides assistance and referrals for marriage and family problems, alcohol and drug dependency, depression, crisis/emergency counseling, and other concerns. All counseling services are confidential. Counseling sessions are free for the first five visits per year; employees begin paying towards the cost thereafter.

6.09 Section 125—Flexible Benefit Plan

Effective January 1, 1999, the following Qualified Benefits are available to represented members under the City's Flexible Benefit Plan: Premium Contribution Plan, Medical Expense Reimbursement Plan, and Dependent Care Assistance Plan.

Attachment 2

Bickmore

August 26, 2013

Ms. Melissa Stevenson-Dile
Assistant City Manager
City of Mountain View
500 Castro Street
Mountain View, CA 94041

Re: Actuarial Analysis of Retiree Medical Costs for Sworn Safety Employees
A Proposal to Join the CalPERS Healthcare Program on an Equal Contribution Basis

Dear Melissa:

This letter is intended to present the final results of our actuarial analysis of the projected long term cost of retiree medical benefits if the City were to adopt the program of benefits described in this report for its sworn safety employees (fire and police). This report is one part of a larger project of the PEMHCA Committee which examines whether the cost of increased benefits to current retirees and future retirees, primarily in the form of subsidized coverage for dependents, could be fully offset by potential premium savings for active employees.

Our calculations were prepared in accordance with generally accepted actuarial principles and methods; in our opinion, the actuarial assumptions used are reasonable individually and in the aggregate and appropriately anticipate future experience under the proposed program of benefits. However, due to the uncertainties involved and the long term nature of these projections, variations from these results are inevitable. Some changes in the plans offered and premium rates charged by CalPERS were announced after this analysis was completed. Had we been aware of these changes at the start of this study, we may have made slightly different estimates, though we do not expect those to have resulted in material differences in the results. In reality, the recent CalPERS program changes may result in a different basis for developing the City's contributions, and therefore different costs for retirees. However, for purposes of this report, our calculations reflect the CalPERS plan and premium structures in effect during 2013.

California Government Code Section 7507 requires that public agencies evaluate increases in the expected value of other post-retirement benefits (OPEB) prior to adopting any such changes. So long as material changes are not made from the benefits we analyzed, this report may be sufficient to satisfy the requirements of GC Section 7507.

We appreciate the opportunity to work with the Committee on this complex project and, as always, are available for questions or discussion of the results.

Sincerely,

Catherine L. MacLeod

Francis M. Schauer, Jr.

Catherine L. MacLeod, FSA, EA, MAAA
Director, Health and Benefit Actuarial

Francis M. Schauer, Jr., FSA, EA, MAAA
Manager, Health and Benefit Actuarial

Bickmore

City of Mountain View

Proposal to Join the CalPERS Medical Program
Analysis of the Retiree Medical Cost
For Sworn Safety Employees

Submitted August 2013

Table of Contents

Executive Summary

At present, the City provides its retiring employees and their eligible dependents with continued access to the healthcare programs offered to its active employees. The City pays all or a portion of the monthly single coverage medical premiums for the lifetime of retirees who satisfy the eligibility requirements; the retiree pays the premium for any covered dependents. The City reports an annual OPEB expense relating to this benefit and the implicit subsidy of retiree premiums in its financial statements.

A PEMHCA Study Committee was formed to examine the potential costs and benefits of a possible migration of coverage for its sworn safety employees from the current medical plans to the CalPERS healthcare program on an "equal contribution" basis. In an earlier phase of this project, Bickmore worked with the Committee to explore practical changes that might be considered to its subsidy of premiums for active sworn safety employees.

The intent of this phase is to summarize the projected long term retiree medical costs that would be required by PEMHCA corresponding to the new active employee premium cost-sharing proposals. For purpose of this analysis, we assumed the proposed benefit change would be effective on January 1, 2013, although the actual changes will be effective January 1, 2014 or later. In addition, we considered many factors, including, but not limited to:

- The limitations and requirements of the CalPERS medical program;
- How current active and retired sworn safety employees might logically transition from their current City medical coverage to a plan offered in the CalPERS program
- How changes in benefits might impact retiree decisions on whether or not to cover a spouse and/or other dependents;
- Appropriate assumptions to be used; and
- How the projected long term OPEB cost for the proposed PEMHCA plan design compares to that under the current City plan design.

The chart below provides a brief comparison of the OPEB liabilities and annual cost for the current City program and those for the proposed plan design for joining the CalPERS medical program. For the generalized comparison table below, we averaged the proposed plan results in Table 1 based on 2 sets of assumptions of trend rates and medical plan.

Benefit Scenario	**Current Plan**	**Average of Proposed Plan**	% Change
For fiscal year ending	6/30/2013	6/30/2013	
Discount rate	7.61%	7.61%	
Total Actuarial PV of Projected Benefits	**34,907,573**	**39,865,659**	14.2%
Total Actuarial Accrued Liability (AAL)	**28,704,669**	**30,207,836**	5.2%
Retiree ARC	520,443	554,168	6.5%
Active ARC	1,187,089	1,583,634	33.4%
Total ARC, fiscal year end June 30, 2013	**1,707,532**	**2,137,761**	25.2%

The following pages outline the process taken in preparing this analysis.

Benefits Considered in this Study

We analyzed expected medical costs to be paid by the City of Mountain View on behalf of its sworn safety employees[1] in retirement, assuming the City joins the CalPERS Healthcare Program and adopts the retiree medical benefits described below. The City has met directly with CalPERS staff to review details of its program. The following is a summary of who has access to this coverage and subsidized premiums after their employment with the City ends.

Retiree Access to CalPERS Health Coverage: CalPERS medical coverage will generally be available to employees and their dependents after termination of employment as follows:

- The employee must satisfy the requirements for retirement under CalPERS, which requires (1) attainment of age 50 (age 52 for new members hired in 2013 and later) with 5 years of State or public agency service or (2) approved disability retirement.
- If an eligible employee is not already enrolled in the medical plan, he or she may enroll within 60 days of retirement or during any future open enrollment period.
- Coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage.
- The employee must commence his or her retirement warrant within 120 days of terminating employment with the City to be eligible to continue medical coverage through the City and be entitled to the employer subsidy described in the PEMHCA resolution(s).

PEMHCA Plan Designs Analyzed: At the City's request, we analyzed expected medical costs to be paid by the City on behalf of employees in retirement, assuming the City contributes equal amounts toward the monthly medical premiums for *current* active and retired employees. The City's payments continue for the retiree's lifetime and (generally, though not always) for the lifetime of a surviving spouse, or until coverage is discontinued.

The City-paid portion of medical premiums for the proposed PEMHCA design is as follows:

- *For single level coverage*: The City will pay the full premium for single coverage for full-time regular employees and eligible retirees for any plan, up to but not exceeding the single coverage premium for the "Maximum" plan. The employee or retiree will pay the additional cost of any plan which has a higher monthly cost than the Maximum plan.
- *Dependent level coverage*: The City will pay 92% of the total premium for the employee and his or her dependents, up to but not exceeding 92% of the two-party or family premium for the Maximum plan. The employee or retiree will pay the remaining premium, which will be at least 8% of the two-party or family premium; more if the plan selected has a higher premium than the Maximum plan.
- In determining the amount paid by the City, the Maximum plan will be the plan with the 4th – highest Bay Area region Basic[2] plan rates (Kaiser in 2013). The maximum premium subsidy for Medicare retirees is the corresponding supplemental plan rate for the Maximum plan; the Maximum plan does not change to another plan for Medicare retirees even if the supplemental plan rate is not the 4th – highest Bay Area region rate.

[1] For the balance of this report, where we refer to "employee" we specifically mean sworn safety employees to whom this change is intended to apply.

[2] Rates charged for active and pre-Medicare retirees.

Benefits Considered in This Study (continued)

Although not directly a part of this study of the effect of a change to PEMHCA medical plans on retiree costs, the change to PEMHCA will result in premium savings for active employees. Appendix 2 shows the savings separately for sworn police and fire employees and Appendix 3 is an analysis of the expected premium savings for active employees.

Comparison of Current and Proposed OPEB Plans: The following chart provides a brief comparison of eligibility and benefit levels under the City's current retiree medical plan and the proposed plan under PEMHCA:

Comparison of Eligibility and Benefits under the Current and Proposed PEMHCA OPEB Plans	Under Current City Program		In PEMHCA
	Retirees Now Receiving Benefits	**Retirees Not Currently Receiving Benefits**	**All Current Retirees & Current Employees (When Retired)**
Applicable Resolution	MOU Benefit	MOU Benefit	Equal Contribution Resolution
Eligibility	PERS retirement 10-15 years of continuous City service (waived for Disability)	Requirements not met or may have waived coverage since City pays no dependent premiums	Age 50 & 5 years of PERS membership (Waived for Disability) Started pension within 120 days of leaving the City
Retiree Benefit	85 - 100% of **single** rate premium*	None (or none taken)	100% of single premium (up to cap)
Dependent Benefit	None	None	92% of premiums up to cap (includes retiree benefit)

** City coverage of single rate group insurance premiums by group:*
Police – 85% of any HMO for those hired on or after 7/1/07. 85% of any plan for those hired previous to 7/1/07 and retired on or after 7/1/1992. 100% of any plan for those retired prior to 7/1/1992.
Fire – 85% of any HMO for those hired on or after 7/1/07. 85% of any plan for those retired after 7/1/05. 100% of any plan for those retired on or before 7/1/05.

Note: It is our understanding that if City sworn safety employees do move to the CalPERS medical program, future employees (those hired on or after the date of the transition) may be covered by a separate "PEMHCA vesting" resolution. We review the basics of that type of resolution and the potential costs for new employees in Table 4.

General Background on OPEB Costs and Expense Recognition

Overview: The ultimate real cost of an employee benefit plan is the present value of all benefits and other expenses of the plan over its lifetime. These expenditures are dependent only on the terms of the plan and the administrative arrangements adopted. The *actuarial assumptions* are used to estimate the cost of these benefits; the *funding method* attempts to spread recognition of these expected costs on a level basis over the life of the plan.

GASB 45 requires that the cost of other post-employment benefits (OPEB) now be *accounted for* over the working lifetimes of employees, not simply at the time when benefits are paid in retirement. The key results from an initial valuation prepared for GASB 45 purposes are:

- The **actuarial present value of projected future benefits** (APVPB) – the total value of all benefits assumed to be paid to current retirees or current active employees after they retire. The APVPB discounts each future payment from the date expected to be paid back to the valuation date using the assumed discount rate (e.g., 7.61% for prefunding).
- The **actuarial accrued liability** (AAL) – the portion of the present value of benefits attributed to service your employees have already worked. The portion of the AAL not already covered by trust assets is called the unfunded AAL.
- The **normal cost** – the cost of future retiree medical benefits for active employees being attributed to active employees' current year of service
- The **annual required contribution** (ARC) – the sum of the current year's normal cost plus a payment to amortize the unfunded AAL, adjusted with interest to fiscal year end.

In comparing the design options, then, a comparison of the actuarial present value of projected benefits (APVPB) gives the best representation of the long term commitments under each design, whereas the annual required contribution (ARC) gives the best representation of the annual accounting expense to be recorded for these benefits.

While these costs represent additional costs to the City for retirees as a result of the change to PEMHCA medical benefits, these costs are offset, to some extent, by the 1.2% of pay active employees will be making to help fund these retiree benefits.

How the costs above are calculated: In the specific development of the projected benefit values and liabilities, we first determine an expected premium or benefit stream over the employee's future retirement. We then calculate a present value of these premiums as of the valuation date.

- These present value determinations reflect assumptions for the likelihood that an employee may not continue in service with the City to receive benefits (i.e., death or termination of employment before retirement);
- For those that do, appropriate assumptions are made to reflect the probability of retirement at various ages and the value of future benefits payable from those ages;
- We also include assumptions about the likelihood that an eligible retiree will or will not elect coverage and whether his or her spouse or other eligible dependents will take coverage as well.

The cost of benefits payable, once they begin for each employee, reflect expected trends in the cost of those benefits and the assumptions as to the expected date(s) those benefit will cease. The last retiree medical payments for current active employees may not be made for 60 years or more.

General Background on OPEB Costs and Expense Recognition (Concluded)

In summary:

Actuarial Accrued Liability	Past Years' Active/Retiree Costs
plus Normal Cost	Current Year's Active Cost
plus Present Value of Future Normal Costs	Future Years' Active Costs
equals Present Value of Projected Benefits	Total Benefit Costs

OPEB Analysis for the City of Mountain View

In preparing this analysis, we first reviewed the current OPEB program and considered how the proposed benefits and medical plans offered might affect retiree behavior. We then prepared retiree medical cost projections in the manner required by GASB 45 and summarized those results side by side for comparison.

Medical plan elections: Bickmore and the Committee jointly considered the appropriate assumptions to make regarding which CalPERS plans would be selected by currently covered sworn active and retired employees, based on plans available in 2013. The following decisions were made by the Committee and are reflected in this analysis:

Assumed Employee and Retiree Plan Elections	
Current Plan	**Proposed Plan**
Kaiser	Kaiser
Other HMO	Blue Shield Access
PPO or POS	75% to PORAC; 25% to PERS Choice

Data: This analysis was prepared based on employee census data initially submitted to us by the City in February 2013 and clarified in various related communications. Summaries of that data are provided in Table 2. While the individual employee records have been reviewed to verify that it is reasonable in various respects, the data has not been audited and we have otherwise relied on the City as to its accuracy. We also relied on the PEMHCA Committee regarding who was to be included in this study.

The City provided data on retirees not currently covered by the City's healthcare plan in order to recognize potential costs for other retirees who may not previously have qualified for or waived City coverage as a retiree, but would be entitled to elect coverage in the CalPERS program.

Significant Assumption Changes: Many of the assumptions used in this analysis are the same, or essentially the same, as those described in recent analysis[3] prepared for these employees based on the current City retiree medical program. Different assumptions worth highlighting are:

- A higher % of spouse and dependent coverage in retirement under PEMHCA. The current benefit does not provide subsidized dependent premiums, whereas PEMHCA rules require that spouse and dependent coverage be provided to retirees at the same level that it is provided to active employees when an equal contribution resolution is adopted. It is, therefore, expected that more retirees will elect spouse and dependent coverage. We increased the assumption for coverage of a spouse and dependent children under age 26 to reflect the benefits payable under the proposed plan(s). The assumed percentages of dependent coverage for (a) existing covered retirees not already covering a spouse and (b) other non-covered but eligible retirees are somewhat lower than our assumption for future retirees.

[3] See report by Nicolay Consulting issued August 20, 2013.

OPEB Analysis for the City (continued)

- For all illustrations presented in this report, we assumed that OPEB funding will continue to be an amount equal to or greater than the ARC each year, and that the City will maintain a net OPEB obligation less than or equal to $0.
- Results are presented based on two alternative assumptions as to future increases in medical premiums chosen by the Committee for this analysis. Bickmore Trend (recommended by the Committee's consultant on this project), assumes higher initial but lower ultimate annual cost increases and reflects the possibility that long term cost growth under the CalPERS medical program could be lower than long term cost growth under the City's health program because CalPERS has greater purchasing power than the City. Nicolay Trend (recommended by the actuarial firm which completes the City's biennial OPEB valuation) was used in projecting cost increases for the City's health plan. It has a lower initial and higher ultimate annual cost increases. Both firms agreed there were legitimate reasons to use either trend in assessing cost growth under CalPERS. The Committee chose to analyze cost increases under both scenarios as a sensitivity analysis to assess best and worst case scenarios for health care cost growth.

A summary of the principal assumptions used in this analysis, including the two alternative trend assumptions, is provided in Table 6.

Limitations in Comparing Current to Proposed Plans: There are some differences between the current plan and the proposed PEMHCA design worth noting. These include:

1. **Implicit subsidy liability**: A retiree's medical claims are, on average, expected to be higher than medical claims for active employees. Having access to coverage at the same premium levels as active employees is a benefit for retirees, referred to as an "implicit subsidy" of retiree premiums. With the current individually underwritten program, the City is required to value and include this implicit subsidy liability in developing its annual OPEB expense. Employers participating in the very large community rated CalPERS medical program are currently not required to do so, based on current GASB 45 requirements.[4] In order to compare the relative *explicit* costs (i.e., direct City payments for retirees) of the current and proposed OPEB plans, both this report and the Nicolay report on the current plan exclude any implicit subsidy liability.
2. **Medical plan selection***:* The Committee recognized that the medical plan premiums for the City's HMO and PPO plans are significantly different from the premium structures in the CalPERS healthcare program. This analysis recognizes a potential shift in the cost sharing arrangement and our best attempts have been made to anticipate employee elections in the CalPERS program. However, if this new design is adopted, some differences between assumed and actual employee elections should be expected.
3. **Participation options for current retirees:** There are some retirees previously eligible for coverage who did not elect it (or have dropped coverage) and others who will qualify for benefits under PEMHCA. We made assumptions regarding the percentage of these eligible non-covered retirees who will elect coverage for themselves and dependents, based on our experience preparing OPEB valuations and other similar studies, however the results could vary by as much as 10% of the retiree liability.

[4] A proposed change to Actuarial Standard of Practice 6, if adopted, would probably eliminate the current community rated plan exception for implicit subsidy liability disclosure.

OPEB Analysis for the City (concluded)

4. **Current plan options not available in CalPERS:** There are some differences in availability of coverage in the current City program that may be affected by the move to CalPERS medical plans. These differences do not appear to be widespread and have not been considered in this analysis, but are nonetheless noted here:
    a. There may be differences in the current City program and the CalPERS program with regard to when a spouse is entitled to coverage during the retiree's lifetime or after his/her death.
    b. There is at least one active sworn employee who has made an irrevocable election to receive City contributions toward a defined contribution retiree health program. PEMHCA may not prohibit this defined contribution benefit, but it does not allow the City to exclude this employee from benefits provided to other employees through a PEMHCA resolution. In other words, this employee could potentially receive benefits under both the defined benefit (PEMHCA) benefit and the defined contribution benefit.
5. **Asset value**: The July 2011 actuarial valuation of the plan developed an actuarial value of assets by smoothing differences between actual and expected values over a rolling 5 year period. However, because the actuarial value of assets was not available as of January 1, 2013 (the date of this analysis), we used the current market value of trust assets to develop the ARC for both the current and proposed plan costs in this report. Some cost fluctuations in biennial valuation results should be expected due to differences between actual and expected earnings on OPEB trust assets.

Presentation of Results

Our results are summarized in the following exhibits:

- **Table 1** compares the present value of future retiree medical benefit liabilities and the annual required contribution (ARC) for the current plan to those of the proposed plan. There are 3 columns provided for the proposed plan design:
  - We reflected two different assumptions regarding rates at which future medical premiums are assumed to increase (healthcare trend).
  - We averaged the results of the different trend assumptions, to see the generalized effect of the proposed plan change.

  In developing the ARC, we assumed the City will continue to amortize the unfunded actuarial accrued liability on a level percent of pay basis over the remaining 24 years of the initial 30 year closed amortization period.

  As noted earlier, for purposes of this comparison, we included only those assets allocated by the City as having been accumulated toward the funding of *explicit* benefits for safety employees.
- **Table 2** provides a summary of basic employee data for those included in this study.
- **Table 3** projects benefits expected to be paid to retirees over the next 20 years.
- **Table 4** compares estimates of annual costs for new employees if covered by (a) the current plan, (b) the proposed PEMHCA "equal contribution" design and (c) the PEMHCA vesting formula.
- **Table 5** provides analysis of the expected net cost (savings) for new sworn police and fire employees, comparing the change in the annual OPEB cost to the change in annual premium costs to the City for a new employee hired at age 30.
- **Table 6** provides a summary of the key assumptions used to develop the results presented in this report.

Further information is provided in the appendices:

- **Appendix 1** is a summary prepared by CalPERS, describing PEMHCA vesting resolution requirements.
- **Appendix 2** provides separate results of the retiree medical costs shown in Table 1 for fire safety and sworn police employees.
- **Appendix 3** provides estimated City savings in medical premiums for *active* sworn employees by comparing premium rates in effect from August 1, 2012 – July 31, 2013 in the City plan compared to CalPERS rates adjusted (weighted) for the same period. We also provide separate results of the estimated savings between active sworn police and fire employees.

Table 1
Comparison of OPEB Cost: Current vs. Proposed Plan

From page 4, the **actuarial present value of projected benefits** (APVPB) represents the total value of all future benefits assumed to be paid to current retirees and as well as for current active employees after they retire. The **actuarial accrued liability** (AAL) is the portion of the APVPB attributed to service which employees have already worked. The **normal cost** is the cost of future benefits for active employees being attributed to the current year of service.

The following compares the projected OPEB liabilities and the ARC for the current plan to those of the proposed PEMHCA plan design.

Benefit Scenario	Current Plan	Proposed Plan		Average of Proposed Plan	% Change
Column Number	**1**	**2**	**3**		
Assumed Election for PPO plans	**N/A**	**75% PORAC / 25% PERS Choice**			
Trend	**Nicolay**	**Bickmore**	**Nicolay**	**Average**	
For fiscal year ending	6/30/2013	6/30/2013	6/30/2013	6/30/2013	
Discount rate	7.61%	7.61%	7.61%	7.61%	
Total Actuarial PV of Projected Benefits	**34,907,573**	**39,435,013**	**40,296,305**	**39,865,659**	14.2%
Total Actuarial Accrued Liability (AAL)	**28,704,669**	**30,011,188**	**30,404,484**	**30,207,836**	5.2%
Allocated Value of Assets (explicit funding)	14,465,238	14,465,238	14,465,238	14,465,238	
Unfunded AAL (UAAL): AAL minus Assets	14,239,431	15,545,950	15,939,245	15,742,598	10.6%
Amortization Factor	15.5345	15.5345	15.5345	15.5345	
Annual Required Contribution (ARC)					
Normal Cost	**721,141**	**1,026,435**	**1,070,415**	**1,048,425**	45.4%
Amortization of UAAL	986,391	1,000,738	1,026,055	1,013,396	2.7%
Interest to 6/30	included above	74,664	77,216	75,940	
Total ARC at fiscal year end	**1,707,532**	**2,101,836**	**2,173,686**	**2,137,761**	25.2%

Retiree ARC	520,443	551,222	557,114	554,168	6.5%
Active ARC	1,187,089	1,550,614	1,616,571	1,583,634	33.4%
Total ARC, fiscal year end June 30, 2013	**1,707,532**	**2,101,836**	**2,173,686**	**2,137,761**	25.2%

In reviewing the comparison above, we can see that the change in the total AAL (past service liability) is relatively modest at 5.2%. The increase for retirees (6.5%) is slightly higher than for actives (3.2%). However, the changes in the present value of projected benefits, the normal cost and the ARC all highlight a greater increase in projected OPEB costs for active employees than for retired employees under the proposed PEMHCA design.

Comparing Columns 2 and 3, the different healthcare trend assumption has a modest effect on the APVPB (2.2%) and on the ARC (3.4%). See page 21 for the year by year comparison of the Nicolay and Bickmore trend assumptions.

Table 2
Summary of Employee Data

In preparing the projected cost increase relating to the benefit changes described above, we used the employee data, medical plan elections and premium information as of January 1, 2013 as provided by the City. The active employee data includes 166 full time sworn safety employees covered by the plan and 2 currently waiving coverage. Age and service information for the reported individuals is provided below:

Distribution of Benefits-Eligible Active Employees

Current Age	Years of Service						Total	Percent
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 & Up		
Under 25							0	0%
25 to 29	6	5	1				12	7%
30 to 34	6	8	13	3			30	18%
35 to 39	2	6	7	16	1		32	19%
40 to 44	1	1	8	19	9	2	40	24%
45 to 49		1	2	7	7	11	28	17%
50 to 54				3	1	17	21	13%
55 to 59						4	4	2%
60 to 64			1				1	1%
65 to 69							0	0%
70 & Up							0	0%
Total	15	21	32	48	18	34	**168**	**100%**
Percent	9%	13%	19%	29%	11%	20%	**100%**	

Averages	Fire	Sworn Police	Total Safety
Annual Covered Payroll	$9,354,000	$12,173,000	$21,527,000
Average Attained Age for Actives	42.9	40.3	41.4
Average Years of Service	14.0	11.5	12.6

The City reported 119 retirees currently receiving benefits and identified an additional 29 retirees expected to qualify under PEMHCA. The chart below summarizes their ages.

Current Age	Currently Covered Retirees *		Eligible Retirees Not Covered **	
	Number	Percent	Number	Percent
Below 50	2	2%	4	3%
50 to 54	14	12%	0	0%
55 to 59	21	18%	3	3%
60 to 64	28	24%	6	5%
65 to 69	23	19%	3	3%
70 to 74	15	13%	5	4%
75 to 79	9	8%	4	3%
80 & up	7	6%	4	3%
Total	**119**	**100%**	**29**	**24%**
Average Age:		64.3		67.8

** Includes 4 surviving spouses*
*** Missing data for 6 retirees was developed from averages.*

Table 2
Summary of Employee Data (continued)

The ages of active and retired employees (covered and/or waiving) are shown separately for Fire and Sworn Police in the chart below:

Summary Counts by Group and Status			
Group	**Fire**	**Sworn Police**	**Total**
Covered Actives	72	94	166
Waiving Actives	1	1	2
Covered Retirees	57	62	119
Other Eligible Retirees	13	16	29
Total Eligible	**143**	**173**	**316**

Current plan coverage for active and retired safety employees is summarized in the chart below:

Medical Plan Type				
	Kaiser	**Other HMO**	**PPO/POS**	**Totals**
Actives	59	74	33	166
Non-Medicare Retirees	19	21	39	79
Medicare Retirees	23	6	11	40
Totals	101	101	83	285

The chart above excludes 2 active employees currently waiving coverage and 29 retirees who are expected to qualify for coverage under PEMHCA. For these individuals, we assumed they would elect coverage in a PPO plan since this was the most common election for current retirees with coverage.

Currently, about 48% of retirees are covering a spouse in one of the City's medical plans. As discussed earlier, we would expect this percentage to increase under PEMHCA on the basis of any of the proposed designs discussed in this report.

Table 3
Projected Annual Benefit Payments

The following is an estimate of other post-employment benefits to be paid on behalf of current retirees and current employees expected to retire from the City under the various plan designs and assumptions regarding migration from current plans to CalPERS plans.

- Some projected benefits have been included for retirees currently waiving coverage or not eligible under the current City program but who would qualify under PEMHCA.
- No benefits expected to be paid on behalf of current active employees *prior to retirement* are considered in this projection.
- No benefits for potential *future employees* have been included.
- Only “explicit” benefit payments are shown; no implicit subsidy benefits are included.

Expected annual benefits have been projected on the basis of the actuarial assumptions outlined in Table 6.

Projected Annual Benefit Payments			
Fiscal Year Ending June 30	Current Plan	Proposed Plan	
	Nicolay	Bickmore	Nicolay
	From Table 2-2 in 2013 report	75% PORAC / 25% PERS Ch	75% PORAC / 25% PERS Ch
2013	$ 1,103,088	$ 1,287,837	$ 1,287,837
2014	1,216,299	1,452,918	1,438,120
2015	1,327,291	1,600,754	1,571,185
2016	1,432,615	1,731,881	1,688,769
2017	1,546,514	1,897,231	1,841,317
2018	1,662,466	2,048,142	1,982,155
2019	1,784,274	2,190,566	2,119,991
2020	1,922,003	2,392,995	2,322,514
2021	2,067,066	2,557,529	2,494,078
2022	2,199,833	2,726,791	2,671,866
2023	2,336,797	2,856,026	2,811,887
2024	2,494,220	3,069,662	3,036,681
2025	2,655,971	3,251,336	3,231,793
2026	2,811,841	3,424,321	3,420,024
2027	2,962,849	3,568,686	3,581,261
2028	3,120,920	3,795,537	3,827,137
2029	3,278,010	3,929,044	3,980,711
2030	3,448,692	4,111,516	4,185,513
2031	3,627,988	4,317,499	4,416,232
2032	3,785,614	4,447,638	4,571,115
20 year total	$ 46,784,351	$ 56,657,903	$ 56,480,181
Increase	-	$ 9,873,552	$ 9,695,830

Table 4
PEMHCA Vesting for Future Sworn Safety Employees

It is our understanding that regardless of the specifics of the equal contribution resolution that might be adopted to cover current active sworn employees and retirees, for purposes of this analysis, we are to consider the possibility that *future* sworn safety employees might be covered by a PEMHCA Vesting resolution. Briefly, the PEMHCA vesting benefit requires the City to pay the lesser of (a) 100% of the premium and (b) the vested percent of the cap. The sections below and Appendix 1 provide details on eligibility and the amount of benefits. Discussion of costs is on the following page.

Retiree Access to CalPERS Health Coverage: Most of the requirements (or options) for CalPERS medical coverage after termination of employment are the same as described on page 2; differences are noted in italics.

- The employee must satisfy the requirements for retirement under CalPERS, which requires attainment of age 50, *have at least 10 years of CalPERS membership and at least 5 years of service with the City* or qualify for a disability retirement.
- If an eligible employee is not already enrolled in the medical plan, he or she may enroll within 60 days of retirement or during any future open enrollment period.
- Coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage.
- The employee must begin his or her retirement warrant within 120 days of terminating employment with the City to be eligible to continue medical coverage through the City and be entitled to the employer subsidy described in the PEMHCA resolution(s). *However, if an employee leaves with at least 20 years of service with the City, he/she need not retire within 120 days. The employee can go on to work elsewhere, but the City will be obligated to pay this medical benefit when the employee eventually retires*.

Benefits provided: A PEMHCA vesting resolution would require the City to pay the lesser of:

- 100% of the monthly premium for retirees and all eligible covered dependents
- The monthly "100/90 formula" benefit amount times the vested percent, where

(a) The 100/90 formula amounts for calendar year 2013 are:

Retiree	Retiree + 1	Retiree + Family
$622.00	$1,183.00	$1,515.00

(b) The vesting percent is based on years of CalPERS membership service as follows:

Qualifying PERS Service	Vested Percent	Qualifying PERS Service	Vested Percent
Less than 10	0%	15	75%
10	50%	16	80%
11	55%	17	85%
12	60%	18	90%
13	65%	19	95%
14	70%	20 or more	100%

However, if an employee qualifies for and takes a disability retirement, the vesting schedule above does not apply; he or she will automatically be 100% vested in health benefits.

Comparison of Projected Annual Cost per New Employee: Since the timing and number of future hires is unknown, we estimated the average annual normal cost for new safety employees at 5 different ages The chart below illustrates the differences between the annual cost for new employees under the current City plan, the PEMHCA "equal contribution" design and the PEMHCA vesting formula[5]. Note that these are the estimated annual City OPEB costs for new employees that are offset, to some extent, by the 1.2% of pay contribution these new employees will be making to help fund these retiree benefits.

	Fire					Police				
Age At Hire	Current City Plan	PEMHCA Equal	% change	PEMHCA Vesting Formula	% change	Current City Plan	PEMHCA Equal	% change	PEMHCA Vesting Formula	% change
25	$ 4,212	$ 4,340	3%	$ 4,658	11%	$ 5,237	$ 6,677	28%	$ 7,104	36%
30	5,056	5,320	5%	5,744	14%	6,254	8,147	30%	8,721	39%
40	6,401	9,031	41%	8,632	35%	7,309	11,240	54%	10,888	49%
50	9,526	17,231	81%	13,508	42%	9,652	16,824	74%	14,506	50%
55	7,570	19,447	157%	16,917	123%	7,120	18,766	164%	16,615	133%

Discussion: The results illustrate how the annual OPEB cost escalates in general for employees hired at older ages, particularly under an equal contribution resolution, due to the short service requirement to be eligible for benefits. Remember that the amount of benefits paid is the same regardless of years of service; however, for employees hired at older ages, there are fewer years over which to allocate these costs and the cost per year goes up significantly.

Now compare the results of the equal contribution resolution to those under the PEMHCA vesting resolution.

- The annual normal cost under the vesting resolution is actually *higher* for those hired under age 40. If these employees stay and retire from the City, most will be 100% vested in a monthly benefit which is higher than the equal contribution resolution would provide. They would also be eligible to leave the City and return later in retirement to receive this benefit.
- Things begin to equalize around age 40. For older ages at hire, the vesting resolution costs drop below the equal contribution resolution costs as the potential for a retiree being less than 100% vested comes into play. However, the decrease at these older ages is not as much as might be expected for two reasons: (1) the underlying vesting formula caps are slightly higher (at least in 2013) than the proposed equal contribution plan we compared to here and (2), the vesting percentage only applies to the vesting formula caps (i.e., the "100/90 formula" amounts), which do not decrease at Medicare. Thus, many partially vested retirees would still have all or a majority of their Medicare Supplement plan premium paid by the City under this type of resolution. For example, a retiree with single coverage, who is 50% vested with a monthly pre-Medicare premium of $500 and a post-Medicare premium of $300, would have his pre-Medicare subsidy limited to $311 (50% of $622), but his post-Medicare premium would be subsidized in full.

[5] For this comparison, we assumed that 75% of sworn safety employees now in PPO plans would elect coverage in the PORAC plan and the other 25% would elect coverage in PERS Choice.

Table 5
Net Cost (Savings) for Average New Safety Employee

The majority of this report has focused on comparing the projected cost of retiree health benefits between the current and proposed plan, considering only current retirees and current active employees expected to retire from the City. The preceding section (Table 4) looks at the potential OPEB cost differences for new employees, under the current plan, the proposed PEMHCA equal plan and the PEMHCA vesting formula. The chart on the preceding page clearly shows higher projected OPEB costs for future employees under both the PEMHCA options illustrated. This is not particularly surprising, since future safety employees would receive (in retirement) a subsidy of 85% of the single coverage premium under the current City program, but under both CalPERS program designs, would receive a higher percentage toward single coverage benefits plus significant dependent benefits.

However, new employees will not bring with them the burden of any previously unfunded OPEB liability. Funding for their benefits will theoretically begin the year they are hired and ideally end when they retire. In the meantime, if coverage shifts to the CalPERS program, the City may realize substantial savings in the cost of providing their medical coverage while they are actively employed. In this section of the report, we compare potential premium savings for a new safety employee against potentially higher OPEB cost to develop a net cost or net savings.

The potential savings in medical premiums to the City depends on which plan and which coverage level the employee selects. The chart below illustrates the potential savings, assuming employees migrate from current plans to the CalPERS plans indicated below[6]:

Estimated 2013 Premium Cost/Savings by Plan & Coverage Level for the City - Kaiser Cap						
Current Plan	Proposed PERS Plan	Coverage Level	City Paid Portion of Current Plan Monthly Premium	City Paid Portion of Proposed Plan Monthly Premium	Change in City Monthly Premium Cost (Savings)	Change in City Annual Premium Cost (Savings)
Kaiser	Kaiser	Ee Only	$ 668.53	$ 668.63	$ 0.10	$ 1
		Ee & 1	1,270.21	1,230.28	(39.93)	(479)
		Ee & 2+	1,769.60	1,599.36	(170.24)	(2,043)
Health Net HMO	Blue Shield Access or Net Value	Ee Only	$ 838.36	$ 668.63	$ (169.73)	$ (2,037)
		Ee & 1	1,592.88	1,230.28	(362.60)	(4,351)
		Ee & 2+	2,045.59	1,599.36	(446.23)	(5,355)
Health Net PPO	PORAC	Ee Only	$ 1,001.54	$ 581.00	$ (420.54)	$ (5,046)
		Ee & 1	1,886.29	1,000.96	(885.33)	(10,624)
		Ee & 2+	2,449.08	1,271.44	(1,177.64)	(14,132)
Health Net PPO	PERS Choice	Ee Only	$ 1,001.54	$ 667.03	$ (334.51)	$ (4,014)
		Ee & 1	1,886.29	1,227.34	(658.95)	(7,907)
		Ee & 2+	2,449.08	1,595.54	(853.54)	(10,243)

[6] City premiums used were in effect August 2012-July 2013. CalPERS premiums used are those in effect January – December 2013.

Table 6
Net Cost (Savings) for New Employees (continued)

The Committee reported that new sworn safety employees are typically hired at about age 30. From the cost comparisons on page 15 in Table 4, we compare the annual OPEB costs for a new employee hired at age 30 under the current and proposed plan designs:

Annual 2013 OPEB Cost (Normal Cost) for New Employees Age 30				
	Fire		Police	
	PEMHCA Equal Kaiser Cap	Vesting	PEMHCA Equal Kaiser Cap	Vesting
Estimated new program cost	$ 5,320	$ 5,744	$ 8,147	$ 8,721
Est current program cost	5,056	5,056	6,254	6,254
OPEB cost increase	**264**	**688**	**1,893**	**2,467**

Finally, we compare the change in OPEB cost against the potential premium savings for this new sworn safety employee. Separate results are shown for fire and police employees.

This chart shows the potential **net** cost increase (or net savings) under the proposed PEMHCA Equal Plan design:

PEMHCA Kaiser Cap 75% PORAC			Fire			Police		
Current Plan	Proposed PERS Plan	Coverage Level	Est OPEB Cost Change	Change in City Annual Premium Cost (Savings)	Est Net City Annual Cost (Savings)	Est OPEB Cost Change	Change in City Annual Premium Cost (Savings)	Est Net City Annual Cost (Savings)
Kaiser	Kaiser	Ee Only	$ 264	$ 1	$ 265	$ 1,893	$ 1	$ 1,894
		Ee & 1	264	(479)	(215)	1,893	(479)	1,414
		Ee & 2+	264	(2,043)	(1,779)	1,893	(2,043)	(150)
Health Net HMO	Blue Shield Access or Net Value	Ee Only	$ 264	$ (2,037)	$ (1,773)	$ 1,893	$ (2,037)	$ (144)
		Ee & 1	264	(4,351)	(4,087)	1,893	(4,351)	(2,458)
		Ee & 2+	264	(5,355)	(5,091)	1,893	(5,355)	(3,462)
Health Net PPO	PORAC	Ee Only	$ 264	$ (5,046)	$ (4,782)	$ 1,893	$ (5,046)	$ (3,153)
		Ee & 1	264	(10,624)	(10,360)	1,893	(10,624)	(8,731)
		Ee & 2+	264	(14,132)	(13,868)	1,893	(14,132)	(12,239)
Health Net PPO	PERS Choice	Ee Only	$ 264	$ (4,014)	$ (3,750)	$ 1,893	$ (4,014)	$ (2,121)
		Ee & 1	264	(7,907)	(7,643)	1,893	(7,907)	(6,014)
		Ee & 2+	264	(10,243)	(9,979)	1,893	(10,243)	(8,350)

The chart on the following page shows the potential **net** cost increase (or net savings) under the proposed PEMHCA Vesting Formula design:

Table 6
Net Cost (Savings) for New Employees (concluded)

PEMHCA Vesting			Fire			Police		
Current Plan	**Proposed PERS Plan**	**Coverage Level**	**Est OPEB Cost Change**	**Change in City Annual Premium Cost (Savings)**	**Est Net City Annual Cost (Savings)**	**Est OPEB Cost Change**	**Change in City Annual Premium Cost (Savings)**	**Est Net City Annual Cost (Savings)**
Kaiser	Kaiser	Ee Only	$ 688	$ 1	$ 689	$ 2,467	$ 1	$ 2,468
		Ee & 1	688	(479)	209	2,467	(479)	1,988
		Ee & 2+	688	(2,043)	(1,355)	2,467	(2,043)	424
Health Net HMO	Blue Shield Access or Net Value	Ee Only	$ 688	$ (2,037)	$ (1,349)	$ 2,467	$ (2,037)	$ 430
		Ee & 1	688	(4,351)	(3,663)	2,467	(4,351)	(1,884)
		Ee & 2+	688	(5,355)	(4,667)	2,467	(5,355)	(2,888)
Health Net PPO	PORAC	Ee Only	$ 688	$ (5,046)	$ (4,358)	$ 2,467	$ (5,046)	$ (2,579)
		Ee & 1	688	(10,624)	(9,936)	2,467	(10,624)	(8,157)
		Ee & 2+	688	(14,132)	(13,443)	2,467	(14,132)	(11,665)
Health Net PPO	PERS Choice	Ee Only	$ 688	$ (4,014)	$ (3,326)	$ 2,467	$ (4,014)	$ (1,547)
		Ee & 1	688	(7,907)	(7,219)	2,467	(7,907)	(5,440)
		Ee & 2+	688	(10,243)	(9,554)	2,467	(10,243)	(7,775)

Table 6
Actuarial Methods and Assumptions

Valuation Date	January 1, 2013
Funding Method	Entry Age Normal Cost, level percent of pay[7]
Asset Valuation Method	Market value of assets
Discount Rate	7.61%
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25% per year, used only to allocate the cost of benefits between service years
Assumed Increase for Amortization Payments	3.25% per year where determined on a percent of pay basis
Inflation Rate	3.25% per year

The demographic actuarial assumptions used in this valuation are based on the (demographic) experience study of the California Public Employees Retirement System using data from 1997 to 2007. Rates for selected age and service are shown below and on the following pages.

Mortality Before Retirement

Mortality rates in the table below were projected by applying Scale AA on a fully generational basis.

CalPERS Public Agency Police & Fire Combined Industrial & Non-Industrial Deaths		
Age	Male	Female
15	0.00045	0.00006
20	0.00050	0.00019
30	0.00063	0.00046
40	0.00100	0.00078
50	0.00191	0.00141
60	0.00412	0.00283
70	0.00933	0.00668
80	0.01548	0.01129

To illustrate, there is a 0.412% probability that a 60 year old male will not survive to his 61st birthday

[7] The level percent of pay aspect of the funding method refers to how the normal cost is determined. Use of level percent of pay cost allocations in the funding method is separate from and has no effect on a decision regarding use of a level percent of pay or level dollar basis for determining amortization payments.

Table 6 - Actuarial Methods and Assumptions (Continued)

Mortality After Retirement

Mortality rates in each of the tables below were projected by applying Scale AA on a fully generational basis.

Service Retirees & Spouses

CalPERS Public Agency Miscellaneous Post Retirement Mortality		
Age	Male	Female
40	0.00093	0.00062
50	0.00239	0.00125
60	0.00720	0.00431
70	0.01675	0.01244
80	0.05270	0.03749
90	0.16747	0.12404
100	0.34551	0.31876
110	1.00000	1.00000

Disabled Fire Retirees

CalPERS Public Agency Disabled Miscellaneous Post Retirement Mortality		
Age	Male	Female
20	0.00664	0.00478
30	0.00790	0.00512
40	0.01666	0.00674
50	0.01632	0.01245
60	0.02293	0.01628
70	0.03870	0.03019
80	0.08388	0.05555
90	0.21554	0.14949

Disabled Police Retirees

CalPERS Public Agency Disabled Police Post Retirement Mortality		
Age	Male	Female
20	0.00230	0.00181
30	0.00227	0.00188
40	0.00272	0.00224
50	0.00503	0.00401
60	0.00845	0.00835
70	0.02304	0.01771
80	0.06984	0.04569
90	0.16774	0.13822

Termination Rates

Whether voluntary or involuntary, if an employee terminates for reasons other than death and does not meet the requirements necessary to qualify for retirement, those benefits will be not be paid. We make assumptions about the likelihood that an employee will leave service in every year between the valuation date and the earliest expected date of retirement.

Police: Sum of CalPERS Terminated Refund and Vested rates

Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.1013	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.1013	0.0258	0.0249	0.0000	0.0000	0.0000
25	0.1013	0.0258	0.0249	0.0179	0.0000	0.0000
30	0.1013	0.0258	0.0249	0.0179	0.0109	0.0000
35	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
40	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082
45	0.1013	0.0258	0.0249	0.0179	0.0109	0.0082

Fire: Sum of CalPERS Terminated Refund and Vested rates

Attained Age	Years of Service					
	0	3	5	10	15	20
15	0.0947	0.0000	0.0000	0.0000	0.0000	0.0000
20	0.0947	0.0323	0.0257	0.0000	0.0000	0.0000
25	0.0947	0.0323	0.0257	0.0090	0.0000	0.0000
30	0.0947	0.0323	0.0257	0.0090	0.0079	0.0000
35	0.0947	0.0323	0.0257	0.0090	0.0079	0.0069
40	0.0947	0.0323	0.0257	0.0090	0.0079	0.0069
45	0.0947	0.0323	0.0257	0.0090	0.0079	0.0069

Table 6 - Actuarial Methods and Assumptions (Continued)

Retirement Rates

To the extent that an individual's employment is not assumed to end through termination or death prior to retirement, we make assumptions about the likelihood each employee will retiree in each future year. The likelihood of retirement in any year is dependent up several factors, including the employee's current age, prior years of CalPERS membership and the retirement plan in which the employee participates. Separate rates apply for service and disability retirements.

Service Retirement Rates

Police*:* CalPERS Public Agency 3% @ 50 – Illustrative rates:

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0700	0.0700	0.0700	0.1310	0.1930	0.2490
52	0.0610	0.0610	0.0610	0.1160	0.1710	0.2200
55	0.0900	0.0900	0.0900	0.1700	0.2500	0.3220
57	0.0800	0.0800	0.0800	0.1520	0.2230	0.2880
60	0.1350	0.1350	0.1350	0.2550	0.3765	0.4845
62	0.1125	0.1125	0.1125	0.2125	0.3138	0.4038
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Fire: CalPERS Public Agency 3% @ 50 – Illustrative rates:

Attained Age	Years of Service					
	5	10	15	20	25	30
50	0.0340	0.0340	0.0340	0.0480	0.0680	0.0800
52	0.0690	0.0690	0.0690	0.0970	0.1380	0.1630
55	0.1270	0.1270	0.1270	0.1770	0.2520	0.2980
57	0.1010	0.1010	0.1010	0.1410	0.2010	0.2380
60	0.1500	0.1500	0.1500	0.2100	0.2985	0.3540
62	0.1250	0.1250	0.1250	0.1750	0.2488	0.2950
65 & over	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Disability Retirement Rates

Illustrative rates:

CalPERS Public Agency Police Combined Disability	
Age	Unisex
20	0.00079
25	0.00332
30	0.00664
35	0.00996
40	0.01327
45	0.01659
50	0.01999
55	0.06803
60	0.06869

CalPERS Public Agency Fire Combined Disability	
Age	Unisex
20	0.00034
25	0.00130
30	0.00262
35	0.00382
40	0.00502
45	0.00632
50	0.00794
55	0.07305
60	0.07351

Table 6 - Actuarial Methods and Assumptions (Continued)

Medicare Eligibility

Absent contrary data, all individuals are assumed to be eligible for Medicare Parts A and B at age 65.

Healthcare Trend

Medical plan premiums are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown in the chart below:

Effective Jan 1	Bickmore Trend	Nicolay Trend
2014	8.00%	6.90%
2015	7.50%	6.60%
2016	7.00%	6.30%
2017	6.50%	6.00%
2018	6.00%	5.70%
2019	5.50%	5.50%
2020	5.00%	5.30%
2021	4.50%	5.00%
& later	4.50%	5.00%

Actual 2013 premiums were used for pre-65 health plans; 2012 post-65 health plan premiums were used for 2013.

Participation Rates

Active employees: 100% are assumed to elect coverage in retirement.

Retirees with current coverage: 100% are assumed to continue coverage in the CalPERS medical program.

For active employees and retirees with current coverage, see page 4 for assumptions regarding medical plan elections.

PEMHCA eligible retirees without coverage:

(a) For retirees who did not qualify for benefits under the current program and are under age 65, we assumed 70% would elect coverage in a PPO plan (see page 5).

(b) For retirees currently over age 65 or who qualified for but waived coverage under the current program, we assumed 10% will elect coverage in a CalPERS PPO plan (see page 5).

Spouse Coverage

Active employees: 85% are assumed to be married and 90% of married employees are assumed to elect coverage for their spouse in retirement under the CalPERS medical program. Surviving spouses are assumed to retain coverage until their death. Husbands are assumed to be 3 years older than their wives.

Table 6 - Actuarial Methods and Assumptions (Concluded)

	Retirees currently covered: If the retiree is currently covering a spouse, coverage is assumed to continue until the spouse's death. Where the retiree was reported to be married but not covering a spouse, we assumed 80% of those currently under age 80 would elect spouse coverage under the CalPERS program. Actual spouse ages are used, where known; if not, husbands are assumed to be 3 years older than their wives.
	Retirees not currently covered: 80% of those currently under age 80 who were reported to be married at the time of retirement are assumed to elect coverage for a spouse under the CalPERS program. Where actual spouse data was not available, we assumed husbands to be 3 years older than their wives.
Dependent Coverage	*Active employees and retirees without coverage currently*: 30% are assumed to cover eligible dependents other than a spouse until the retiree's age 65.
	Retired participants currently covering dependent children are assumed to end such coverage when the youngest currently covered dependent reaches age 26.

Changes from the most recently completed actuarial valuation of the City plan

Spouse Coverage	The percentage of retirees electing to cover a spouse was increased to 76.5% (85% married times 90% of married retirees electing to cover a spouse), from 55%.
Dependent Coverage	An assumption was added for dependent coverage.
Healthcare Trend	Two alternative healthcare trend assumptions were used.
Implicit Subsidy	No implicit subsidy liability was included.
Assets	The market value of assets was used, rather than actuarial value.

Appendix 1
PUBLIC AGENCY VESTING FOR HEALTH BENEFITS
G.C. 22893 KEY RULES

The following is taken from a CalPERS summary of key rules last revised in 2007:

I. Vesting for Health Benefits

- Regulated by Government Code 22893
- Applies to employees hired on or after the effective date of the resolution electing vesting method

II. Vesting Schedule

- A minimum of ten years of state service credit is required to receive 50% of the employer contribution
  - Credited State Service is compensated CalPERS service time earned (defined in G.C. 20069)
  - Purchased "Additional Retirement Service Credit (ARSC)" does not qualify as it is not earned service.
- Five of those ten years of service must be performed at your agency
- Each additional service credit year after ten years increases the employer contribution percentage by 5% until 20 years at which time the retiring employee is eligible for 100% of the employer contribution

III. Employer Contribution for Active Employees

- Is subject to the Collective Bargaining Agreement or Memorandum of Understanding (MOU).
- Must be at least the minimum contribution defined in GC 22892(b)(1). The minimum contribution for 2008 is $97.00. This contribution will be increased each year according to G.C. 22892 (b)(1).

IV. Employees Hired Prior to Vesting

- Once each year the employer **may** allow any employee hired before the employer elected G.C. 22893 the opportunity to individually elect to be subject to the provisions of G.C. 22893.

V. Employer Contribution for Retirees

- Minimum must equal the State annuitant's contribution, annually calculated by the 100/90 formula which is based on 100 percent of the weighted average of the health benefits plan premiums for annuitants enrolled for self alone plus 90 percent of the weighted average of the additional premiums required for enrollment of the family members in the four health benefits plan that have the largest number of enrollments during the fiscal year. This is the minimum contribution allowed under this provision.
- Maximum can be up to 100% total premium
- **Retired Employee and Survivor:** Percentage of employer contribution based on years of service credit for annuitants

VI. Exceptions

- Exceptions to the vesting requirements who are eligible for the **full employer contribution**
  - An employee who retires on disability retirement
  - An employee who performs 20 years of service credit solely with your agency

Appendix 2
Comparison of OPEB Cost: Current vs. Proposed Plan
Results Split for Fire and Police Employees

The two charts below split the results presented in Table 1 between Sworn Police and Fire employees.

Results for Fire Employees:

Benefit Scenario	Current Plan	Proposed Plan		Average of Proposed Plan	% Change
Column Number	1	2	3		
Assumed Election for PPO plans	N/A	75% PORAC / 25% PERS Choice			
Trend	Nicolay	Bickmore	Nicolay		
For fiscal year ending	6/30/2013	6/30/2013	6/30/2013	6/30/2013	
Discount rate	7.61%	7.61%	7.61%	7.61%	
Total Actuarial PV of Projected Benefits	**15,962,506**	**16,719,579**	**17,012,817**	**16,866,198**	5.7%
Total Actuarial Accrued Liability (AAL)	**13,518,068**	**13,743,519**	**13,879,137**	**13,811,328**	2.2%
Allocated Value of Assets (explicit funding)	6,248,298	6,248,298	6,248,298	6,248,298	
Unfunded AAL (UAAL): AAL minus Assets	7,269,770	7,495,221	7,630,839	7,563,030	4.0%
Amortization Factor	15.5345	15.5345	15.5345	15.5345	
Annual Required Contribution (ARC)					
Normal Cost	**286,822**	**348,179**	**363,569**	**355,874**	24.1%
Amortization of UAAL	503,590	482,489	491,219	486,854	-3.3%
Interest to 6/30	included above	30,595	31,483	31,039	
Total ARC at fiscal year end	**790,412**	**861,262**	**886,271**	**873,766**	10.5%

Results for Police Employees:

Benefit Scenario	Current Plan	Proposed Plan		Average of Proposed Plan	% Change
Column Number	1	2	3		
Assumed Election for current PPO Plan	N/A	75% PORAC / 25% PERS Choice			
Trend	Nicolay	Bickmore	Nicolay		
For fiscal year ending	6/30/2013	6/30/2013	6/30/2013	6/30/2013	
Discount rate	7.61%	7.61%	7.61%	7.61%	
Total Actuarial PV of Projected Benefits	**18,945,067**	**22,715,434**	**23,283,487**	**22,999,460**	21.4%
Total Actuarial Accrued Liability (AAL)	**15,186,601**	**16,267,669**	**16,525,346**	**16,396,508**	8.0%
Allocated Value of Assets (explicit funding)	8,216,940	8,216,940	8,216,940	8,216,940	
Unfunded AAL (UAAL): AAL minus Assets	6,969,661	8,050,729	8,308,406	8,179,568	17.4%
Amortization Factor	15.5345	15.5345	15.5345	15.5345	
Annual Required Contribution (ARC)					
Normal Cost	**434,319**	**678,257**	**706,847**	**692,552**	59.5%
Amortization of UAAL	482,801	518,249	534,836	526,542	9.1%
Interest to 6/30	included above	44,069	45,733	44,901	
Total ARC at fiscal year end	**917,120**	**1,240,574**	**1,287,415**	**1,263,995**	37.8%

Appendix 3
Estimated City Medical Premium Savings for Active Employees
January 7, 2013

City of Mountain View
Estimated City Medical Premium Savings for Active Safety Employees

The City, MVFF and POA requested that Bickmore analyze the potential savings in the City's portion of medical premiums paid for active MVFF and POA employees. The following formula for developing the City-paid portion of medical premiums was suggested for this analysis which is described below:

Based on premiums *by coverage level* for the 4th-highest Bay Area Region Basic plan (Kaiser in 2013)

a. Single level coverage: The City will pay the full premium for single coverage for full-time regular employees for any plan with the City's maximum contribution tied to the 4th-highest Bay Area Region Basic plan (in 2013, Kaiser) and the employee will pay the additional cost of any plan which has a higher monthly cost.

b. Dependent level coverage: The City will pay 92% of the total premium for the employee and his or her dependents, up to but not exceeding 92% of the two party or family premium rate for the 4th-highest Bay Area Region Basic plan (in 2013, Kaiser). The employee will pay the remaining premium, which will be at least 8% of the two party or family premium; more if the plan selected is higher cost than the 4th-highest Bay area plan.

2013 Monthly Caps as Described Above		
Coverage Level	2012/2013 Kaiser Bay	2012/2013 Kaiser Cap
1	$ 644.38	$ 644.38
2	1,288.77	1,185.67
4	1,675.40	1,541.37

Summary of Estimated City Premium Savings From 8/1/2012 - 7/31/2013		
City Paid Premiums	Current Plan	Proposed Plan
Monthly Paid by City	$ 282,728	$ 210,855
Monthly City Savings	-	71,872
Annual City Premiums	3,392,732	2,530,263
Annual City Savings	-	862,469
Annual Savings - Fire	-	403,166
Annual Savings - Police	-	459,303

The calculations above assume that employees selected new plans as follows:	Kaiser	Kaiser
	Other HMO	BlueShield Access
	PPO or POS	75% PORAC 25% PERS Choice

Glossary

Actuarial Accrued Liability (AAL) – Total dollars required to fund all plan benefits attributable to service rendered as of the valuation date for current plan members and vested prior plan members; see "Actuarial Present Value"

Actuarial Funding Method – A procedure which calculates the actuarial present value of plan benefits and expenses, and allocates these expenses to time periods, typically as a normal cost and an actuarial accrued liability

Actuarial Present Value (APV) – The amount presently required to fund a payment or series of payments in the future, it is determined by discounting the future payments by an appropriate interest rate and the probability of nonpayment.

Annual Required Contribution (ARC) – The amount the employer would contribute to a defined benefit OPEB plan for a given year, it is the sum of the normal cost and some amortization (typically 30 years) of the unfunded actuarial accrued liability

CalPERS – Many state governments maintain a public employee retirement system; CalPERS is the California program, covering all eligible state government employees as well as other employees of other governments within California who have elected to join the system

Entry Age Normal Cost (EANC) – An actuarial funding method where, for each individual, the actuarial present value of benefits is levelly spread over the individual's projected earnings or service from entry age to assumed exit age

Government Accounting Standards Board (GASB) – A private, not-for-profit organization which develops generally accepted accounting principles (GAAP) for U.S. state and local governments; like FASB, it is part of the Financial Accounting Foundation (FAF), which funds each organization and selects the members of each board

Normal Cost – Total dollar value of benefits expected to be earned by plan members in the current year, as assigned by the chosen funding method; also called current service cost

Other Post-Employment Benefits (OPEB) – Post-employment benefits other than pension benefits, most commonly healthcare benefits but also including life insurance if provided separately from a pension plan

Pay-As-You-Go – Contributions to the plan are made at about the same time and in about the same amount as benefit payments and expenses coming due

PEMHCA – The Public Employees' Medical and Hospital Care Act, established by the California legislature in 1961, provides community-rated medical benefits to participating employers. Among its extensive regulations are the requirements that medical insurance contributions for retired annuitants be equal to the medical insurance contributions paid for its active employees, and that a contracting agency file a resolution, adopted by its governing body, with the CalPERS Board establishing any new contribution.

Prefunding – A term used in GASB 45 to refer to when an agency contributes an amount greater than or equal to the ARC each year.

Trend – The healthcare cost trend rate, defined as the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments.

Unfunded Actuarial Accrued Liability (UAAL) – The excess of the actuarial accrued liability over the actuarial value of plan assets

Financial Impact for Sworn Fire and Sworn Police Migration to PERS Health

Changes in Annual City Costs for Health Benefits—*Fire* Sworn Employees Only		
	PEMHCA Health Cost Bickmore	**PEMHCA Health Cost Nicolay**
Increase in Annual Required Contribution	$ 70,850	$ 95,859
Savings in City-Paid Health Premiums Active Employees (Budgeted for FY 2012-13)	(399,536)	(399,536)
Estimated increase in City Premiums Associated with Smaller Group Insured (average 6.5% for Kaiser)	247,228	247,228
1.2% OPEB Contribution *(Note: amount listed is based on 2012-13 salaries)*	(120,657)	(120,657)
Total Annual City Cost (savings) for Employees and Retirees Health Insurance	**$(202,115)**	**$(177,106)**
Changes in Annual City Costs for Health Benefits—*Police* Sworn Employees Only		
	PEMHCA Health Cost Bickmore	**PEMHCA Health Cost Nicolay**
Increase in Annual Required Contribution	$ 323,454	$ 370,295
Savings in City-Paid Health Premiums Active Employees (Budgeted for FY 2012-13) and Savings for PEMHCA Plans	(453,363)	(453,363)
Estimated Increase in City Premiums Associated with Smaller Group Insured (average 6.5% for Kaiser)	299,945	299,945
1.2% OPEB Contribution *(Note: amount listed is based on 2012-13 salaries; Police contribution begins 2013-14)*	(147,272)	(147,272)
Total Annual City Cost (savings) for Employees and Retirees Health Insurance	**$ 22,764**	**$ 69,605**

Sources: Table 1 Bickmore Report and City of Mountain View